

1965 ANNUAL REPORT

CLEVELAND PUBLIC LIBRARY
6150006 INV. BUR.
CORPORATION FILE



api INSTRUMENTS CO.

TEN-YEAR FINANCIAL SUMMARY

	1965	1964	1963	1962	1961	1960
Net Sales	\$6,942,031	\$5,812,783	\$5,346,356	\$5,371,164	\$4,161,389	\$3,400,579
Earnings before Federal taxes on income	843,198	692,244	411,896	684,442	378,889	502,285
Provision for Federal taxes on income	404,000	340,000	208,000	351,500	190,000	260,227
Net earnings	439,198	352,244	203,896	332,942	188,889	242,058
Earnings per share (A)	.88	.71	.41	.67	.39	.51
Cash dividends per share	.35	.30	.05	.10	—	.10
Additions to property, plant and equipment	529,894	120,631	165,007	129,276	480,732	71,880
Provision for depreciation	152,232	138,713	135,946	128,516	99,802	64,568
Current assets	3,045,808	2,994,188	2,856,240	2,943,954	1,682,887	1,323,270
Current liabilities	782,314	654,515	537,306	664,389	541,693	391,616
Working capital	2,263,494	2,339,673	2,318,934	2,279,565	1,141,194	931,654
Long-term debt payable	1,054,000	1,075,000	1,273,570	1,250,000	305,000	100,000
Book value per share (B)	4.95	4.41	4.00	3.89	3.32	2.75
Shareholders' equity	2,470,904	2,197,571	1,994,725	1,961,834	1,647,500	1,327,858

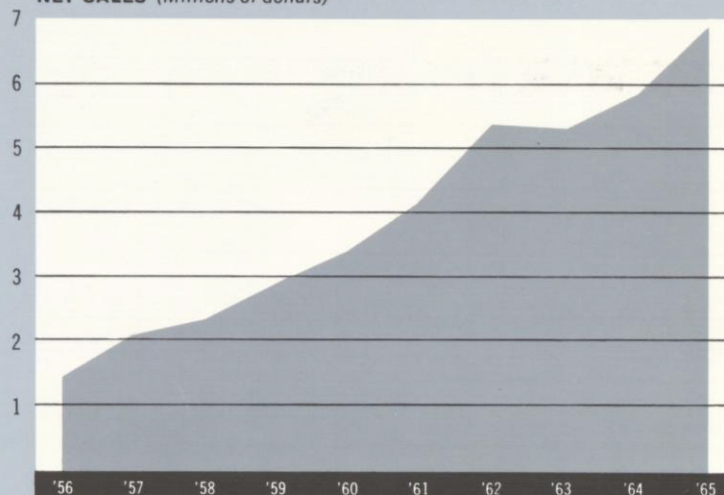
Notes: (A) Stated on the basis of average shares outstanding with the public at the beginning and end of the respective periods, adjusted for stock split (200% in 1959) and stock dividends (5% in 1960 and 4% in 1963).

API's Controls Division, which moved into the new plant in July, is expected to grow rapidly over the next five years.

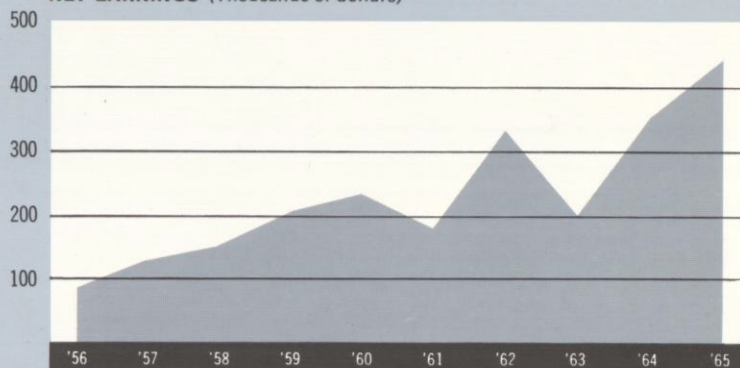


1959	1958	1957	1956
\$2,914,170	\$2,157,540	\$2,068,279	\$1,444,084
416,830	308,119	263,141	160,454
214,977	156,969	135,866	77,936
201,853	151,150	127,275	82,518
.44	.33	.32	.25
—	.06	.05	—
209,363	41,347	128,616	154,833
48,185	43,518	35,035	20,130
980,811	782,434	709,695	412,886
376,326	323,635	299,248	259,315
604,485	458,799	410,447	153,571
150,000	53,269	77,358	114,866
2.11	1.69	1.41	.80
962,833	760,981	638,130	265,304

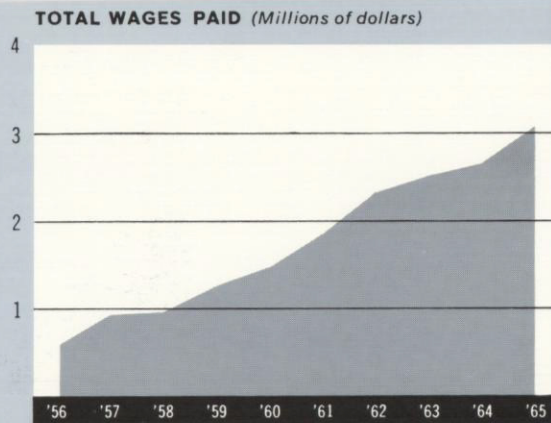
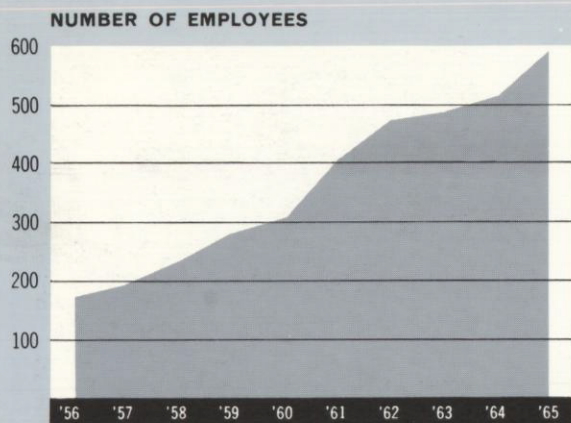
NET SALES (Millions of dollars)



NET EARNINGS (Thousands of dollars)

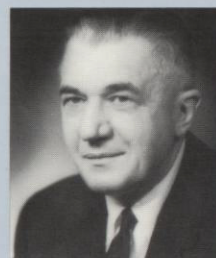


(B) At close of the respective years adjusted for stock split (200% in 1959) and stock dividends (5% in 1960 and 4% in 1963).

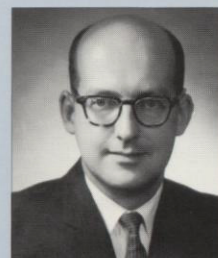


BOARD OF DIRECTORS

William T. Robbins, *Chairman* John D. Saint-Amour
Robert H. Pugsley David T. Morgenthaler



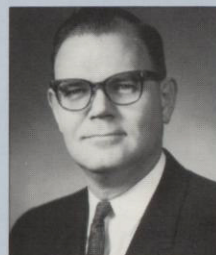
William T. Robbins



John D. Saint-Amour

OFFICERS

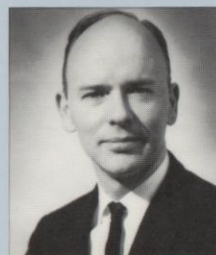
John D. Saint-Amour Robert H. Pugsley
President *Executive Vice-President*
George J. Crowdes, Jr. Myron W. Ulrich
Vice President *Secretary*
Albert A. Cox John P. Isham
Treasurer *Controller*



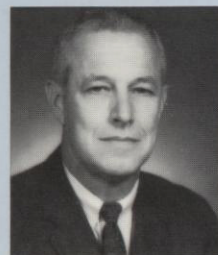
David T. Morgenthaler



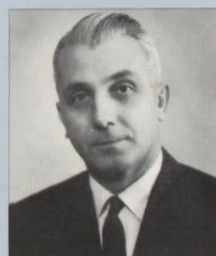
Robert H. Pugsley



George J. Crowdes, Jr.



Albert A. Cox



Myron W. Ulrich



John P. Isham



TO OUR SHAREHOLDERS, EMPLOYEES AND FRIENDS:

In a number of tangible ways, API continued its transition in 1965 from "small business" to a sizable enterprise.

Net income increased 25 per cent to \$439,198, or 88 cents per share. This showing compared with our best previous year, 1964, when net income was \$352,244, or 71 cents per share. Earnings thus continued the steady improvement of the last several years.

Shipments of \$6,942,031 were 19 per cent higher than those in 1964. The 1964 figure of \$5,812,783 also was the best up to that time.

To a very real extent, the higher sales and earnings can be attributed to our vigorous development program. For example, our sales of panel meters showed a gratifying rise during the year, in one of the most hotly competitive areas of the instrument field. In numerous cases of sizable orders, API panel meters were specified because of the superior characteristics we have developed.

Similarly, the quality and reliability of our meter-relays accounted directly for large orders of those instruments. We sincerely believe that API is now considered the top quality line in the fields covered by our products.

Our temperature controllers, on which we have invested a great deal of money and engineering effort, have not yet begun to contribute importantly to our sales and profits. Here again, however, we are confident that we are offering customers more desirable features than any other line, at prices that compare very favorably with those of our competitors. All our soundings of the temperature control market lead us to believe that we should be able to carve out a good share of business there in the years to come.

DIVIDEND INCREASED TWICE

The quarterly dividend rate was increased twice during the year, and an extra dividend was paid at year end, as in 1964. The new rate of 10 cents a quarter brings the return on API stock to a respectable level. Naturally, the future course of dividends will depend on the level of earnings.

PRESIDENT'S LETTER *(Continued)*

The new plant housing our Controls Division has been operating at a good pace since it was opened in July. The 60-acre site offers ample space for any conceivable expansion in the near future. It is the inevitable place for our future physical growth.

During the forthcoming year, we will probably increase the work force at the new plant and bring our total roster to more than 600 people. More than 100 were added in 1965.

As in any healthy company, the enthusiasm and skill of API employees comprise our greatest asset. We have an unusually large number of truly conscientious people who put forth far more effort than is required of them in a strict sense. These people contribute the extra interest that often spells the difference between a vigorous company and one that is standing still or slipping back.

WHAT API MAKES—AND WILL MAKE

In 1966, API plans to introduce more new products than we have ever previously brought out in one year. These new items may be more understandable to shareholders if I quickly review our existing lines. Many are shown on the back cover of this report.

Most of API's instruments are built around a d'Arsonval movement, which measures electrical current with a moving coil of very fine wire. The simplest d'Arsonval instrument is a panel meter, which indicates the variations of a condition that can be detected electrically. As I explained earlier in this letter, a great many companies make panel meters, but we think ours are the pacemakers for styling, precision, and general high quality.

For many years, API has emphasized meter-relays, which are more complicated off-shoots of meters. A meter-relay has one or two more pointers, plus circuitry that enables it both to detect a signal and to control the variable putting out the signal. API's optical meter-relay, using varying amounts of internal light to activate solid-state electronics, is a highly versatile and reliable control device. One has already operated more than 41 million times in our laboratory without a sign of failure.

Our third major line of products is self-contained controllers, embodying meter-relays and all the accessory devices needed for immediate in-

Vigorous product development requires aggressive merchandising, including extensive use of sales literature, technical publicity, and trade publication advertising.



stallation. Our all-purpose Compacts and our Series 700 temperature controllers are in this group, which will be the fastest growing over the next several years.

Besides building many controllers for customers' special needs, we also make such semi-standard products as the Line Sentry for electric power monitoring and the Flux-Flaw line, including flaw detectors and hardness gauges for moving steel.

API recently introduced a device for converting panel meters or meter-relays into wattmeters. We had received a number of requests for such a product, and we think there is a fair-sized market for it. Just about ready to come out are new large meters and "null" meters, both of which are needed. We are also well along on different sizes of the edge-reading instruments we introduced in 1965.

Late in the year we further diversified our product mix by purchasing a line of radiation pyrometers from the Fostoria Corp. These instruments, which measure temperature of industrial processes by sensing radiation, are being redesigned and will be marketed by API in the latter half of 1966. These pyrometers can often determine temperature where other sensors are not practical. We believe they will be especially suitable in many applications when teamed up with our Series 700 controllers.

These and other new products will keep API well-known in the fast-growing instrument field. The most important trend here is more precise measurement of tiny signals—and this is exactly the direction API has emphasized.

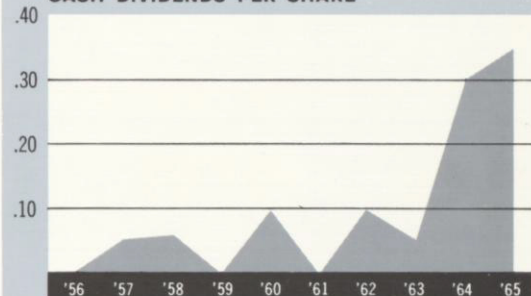
In 1966 we are aiming at \$500,000 in net profit, or about \$1.00 a share, and \$8,000,000 in shipments. At this rate net income would be slightly better than 6 per cent on sales as in 1965. We hope that we will again exceed our goals, but if we merely achieve them, we will consider the year a creditable one.

Sincerely,

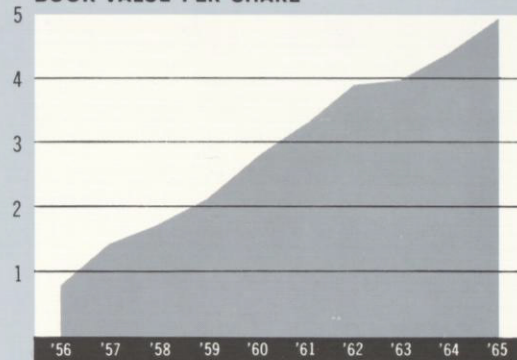
John B. Saint-Amant
President

February 18, 1966

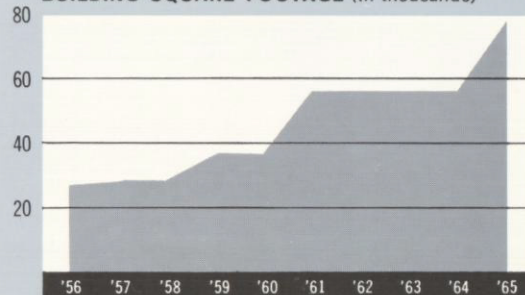
CASH DIVIDENDS PER SHARE



BOOK VALUE PER SHARE



BUILDING SQUARE FOOTAGE (In thousands)





INSTRUMENTS CO.

ASSETS

	1965	1964
Current assets:		
Cash	\$ 149,733	231,642
Marketable securities, at cost plus accrued interest (approximate market)	297,694	794,677
Receivables:		
Customers	1,260,574	1,009,555
Other	17,852	16,834
	<u>1,278,426</u>	<u>1,026,389</u>
Less allowance for doubtful accounts	12,500	—
	<u>1,265,926</u>	<u>1,026,389</u>
Inventories, at standards based on average costs (first-in, first-out) not in excess of replacement market	1,310,128	919,034
Prepaid insurance, deposits, etc.	22,327	22,446
Total current assets	<u>3,045,808</u>	<u>2,994,188</u>
Cash value of life insurance policies	27,080	21,480
Non-current receivables, less allowance for loss of \$35,000 in 1965	34,952	69,952
Property, plant and equipment, at cost less accumulated depreciation:		
Land	119,023	122,212
Buildings and improvements	1,054,585	665,299
Machinery and equipment	337,987	319,555
Tools, dies, jigs and molds	130,645	96,548
Furniture and fixtures	107,648	90,572
Autos and trucks	23,818	17,618
	<u>1,773,706</u>	<u>1,311,804</u>
Less accumulated depreciation	625,390	530,499
	<u>1,148,316</u>	<u>781,305</u>
Unamortized cost of leasehold improvements	95	380
Property, plant and equipment, net	<u>1,148,411</u>	<u>781,685</u>
Unamortized debenture expense	50,967	59,781
	<u>\$4,307,218</u>	<u>3,927,086</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS December 31, 1965

- (1) The convertible subordinated debentures, due September 1, 1972, are convertible into common shares at \$13.46 per share (with anti-dilution adjustment provisions) and are redeemable at the option of the company as a whole or in part at a premium of 5% through August 31, 1967, premium thereafter decreasing at the rate of 1% per annum. As of December 31, 1965 approximately 78,300 shares of the company's authorized but unissued common stock are reserved for conversion of the debentures.

In addition to the usual restrictive covenants including the requirement that the company maintain minimum working capi-

tal, the trust indenture limits the company's payment of dividends (other than in shares of its own stock) or purchase, redemption or acquisition of its capital stock to net earnings after December 31, 1961 plus \$100,000 and the net consideration from issue or sale of its own shares. As of December 31, 1965 approximately \$923,000 of retained earnings are not affected by these restrictions.

- (2) During 1965 proprietary capital was increased by \$8,840 representing proceeds received from the sale of 1,635 shares upon the exercise of restricted stock options. The status of stock plans for key employees at December 31, 1965 is as follows:

Balance Sheet December 31, 1965 with comparative figures for 1964

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Mortgage note payable	\$ —	23,570
Accounts payable	175,723	82,291
Taxes withheld at source	63,906	49,726

Accrued liabilities:

Salaries, wages and commissions	157,347	108,844
Taxes, other than Federal taxes on income	64,786	53,384
Interest	20,202	20,604
Other	34,832	34,841

277,167 217,673

Federal taxes on income, estimated	265,518	281,255
--	---------	---------

Total current liabilities 782,314 654,515

5¾% convertible subordinated debentures (note 1)	1,054,000	1,075,000
--	-----------	-----------

Shareholders' equity:

Proprietary capital (notes 1 and 2):

Common stock, par value \$1 per share.

Authorized 750,000 shares; issued and outstanding 506,561 in 1965 and 504,926 in 1964	506,561	504,926
--	---------	---------

Other capital ascribed to shares	814,704	807,499
--	---------	---------

1,321,265 1,312,425

Retained earnings (note 1)	1,188,646	924,153
--------------------------------------	-----------	---------

2,509,911 2,236,578

Deduct 6,934 shares of common stock held in treasury, at cost	39,007	39,007
--	--------	--------

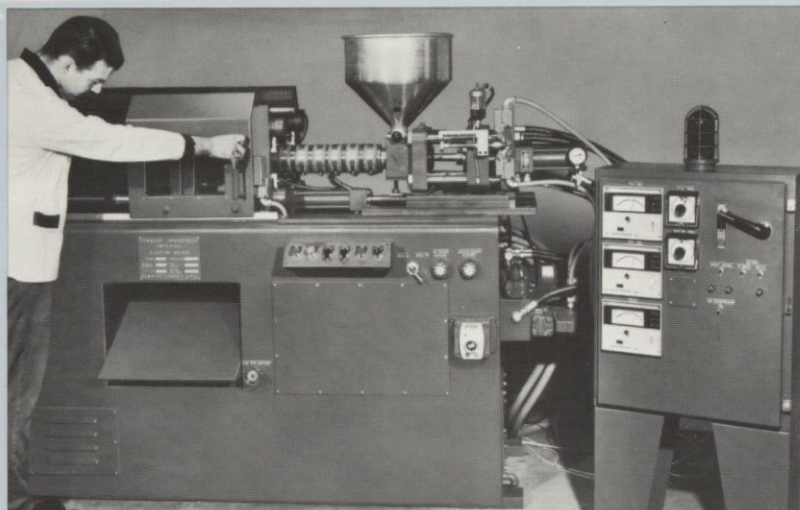
Total shareholders' equity 2,470,904 2,197,571

\$4,307,218 3,927,086

Year of Option	Shares	Option Price Per Share
Restricted stock option plan:		
1961	2,860	\$13.93—15.08
1962	260	9.36
1963	3,565	5.26 — 8.45
	<u>6,685</u>	
Qualified stock option plan:		
1964	1,050	\$6.94
1965	2,920	7.38—10.88
	<u>3,970</u>	
Shares available for option:	24,780	
	<u>28,750</u>	

Options are granted at not less than fair market value (95% of fair market value for restricted options) at date of grant, are for a period of five years and are exercisable eighteen months after date of grant except that not more than 40% may be exercised within two years from date of grant, and 20% each year thereafter during the remaining option period. Cumulative provisions apply with respect to any period in which that portion of the option was not exercised.

- (3) The company's contribution to the employees' contributory retirement pension trust was \$46,654 in 1965 as compared with \$33,275 in 1964. There is no past service liability under this plan.



Series 700 temperature controllers, shown in console at right, are expected to find wide-spread application in plastic molding machinery.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1965 with comparative figures for 1964

	1965	1964
Net sales	\$6,942,031	5,812,783
Cost of sales and operating expenses:		
Cost of sales and operating expenses, exclusive of depreciation, amortization and taxes:		
Cost of sales	4,587,737	3,739,064
Selling, administrative and general expenses	1,093,584	1,035,241
Depreciation and amortization	152,232	143,293
Taxes, other than Federal taxes on income:		
Payroll	127,718	112,156
Other, state and local	51,725	45,859
Provision for uncollectible receivables	56,922	5,185
	<u>6,069,918</u>	<u>5,080,798</u>
Operating profit	872,113	731,985
Other charges, net:		
Interest on long-term debt	62,692	67,539
Amortization of debenture expense	7,728	8,131
	<u>70,420</u>	<u>75,670</u>
Less other income:		
Interest	25,716	26,308
Gain (loss) on sale of depreciable assets	15,789	(277)
Sundry, net	—	9,898
	<u>41,505</u>	<u>35,929</u>
	<u>28,915</u>	<u>39,741</u>
Earnings before Federal taxes on income	843,198	692,244
Provision for Federal taxes on income	404,000	340,000
Net earnings	<u>439,198</u>	<u>352,244</u>
Retained earnings at beginning of year	924,153	721,307
	<u>1,363,351</u>	<u>1,073,551</u>
Less cash dividends—thirty-five cents per share in 1965 and thirty cents per share in 1964	174,705	149,398
Retained earnings at end of year	<u>\$1,188,646</u>	<u>924,153</u>

See accompanying notes to financial statements.

api INSTRUMENTS CO.

SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1965

Funds provided:			
Net earnings for year			\$439,198
Depreciation and amortization, requiring no expenditure of funds:			
Property, plant and equipment	\$152,232		
Debenture expense	<u>7,728</u>		159,960
Proceeds from stock options exercised			<u>8,840</u>
			<u>607,998</u>
Funds applied:			
Cash dividends paid			174,705
Decrease in long-term debt:			
5¾% subordinated debentures	21,000		
Less applicable unamortized debenture expense	<u>1,086</u>		19,914
Retained in business:			
Additions to property, plant and equipment	529,894		
Less net book value of disposals	<u>10,936</u>		518,958
Increase in cash surrender value of life insurance policies		<u>5,600</u>	
		524,558	
Deduct:			
Decrease in non-current receivables	\$35,000		
Decrease in working capital	<u>76,179</u>	<u>111,179</u>	413,379
			<u>\$607,998</u>

ACCOUNTANTS' REPORT

THE SHAREHOLDERS AND BOARD OF DIRECTORS
API INSTRUMENTS COMPANY:

We have examined the balance sheet of API Instruments Company as of December 31, 1965 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of API Instruments Company at December 31, 1965 and the results of its operations for the year then ended, in conformity with generally accepted accounting

principles applied on a basis consistent, in all material respects, with that of the preceding year; also, in our opinion, the statement setting forth source and application of funds for the year presents fairly the information summarized therein.

East, Marwick, Mitchell & Co.

Cleveland, Ohio
February 3, 1966

API INSTRUMENTS CO.

CHESTERLAND, OHIO

RETURN REQUESTED

BULK RATE
U. S. POSTAGE

PAID

CHESTERLAND, OHIO
PERMIT No. 15

ALBERT E. R. SCHNEIDER, JR. AS
CUSTODIAN FOR WILLIAM A. SCHNEIDER,
A MINOR PURSUANT TO SECS 1339.19 TO
1339.26 INCL OF THE REVISED CODE
OF OHIO
2504 FAIRMOUNT BLVD.
CLEVELAND 6, OHIO

Representative
API products are
shown here. In-
cluded are panel
meters, optical
meter-relays,
Series 700 tem-
perature control,
and pyrometers.
Large white
panel meter at
left is more than
10 inches wide.



api

INSTRUMENTS CO.

CHESTERLAND, OHIO 44026